



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

TO: EDITORS, NEWS DIRECTORS
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CASINO REVENUE AND WATER RIGHTS INVESTMENTS UNDER SCRUTINY Commission Charges Tucson Man with Securities Fraud

PHOENIX – The Arizona Corporation Commission's Securities Division issued a temporary cease and desist order against a Tucson man and his Tucson- and Prescott-based business. The Division alleges violations of securities regulations in connection with the fraudulent offer and sale of revenues from Indian casino operations and tribal water rights. The Commission advises investors that it is against the law for anyone to offer or sell these investments while the temporary cease and desist order is in effect.

Named as respondents in the action are 42-year-old John S. Mendibles of Tucson his company, MGN Enterprises, Ltd., a defunct corporation. The temporary order outlines the following alleged violations, among others:

- The respondents falsely represented to investors that they have an agreement with the San Juan Southern Paiute Tribe, granting them full authority to develop a gaming facility on tribal lands, to secure funding for such a facility, and to oversee the construction, development, staffing, and management of the gaming facility. Mendibles and MGN have no such agreement with the Tribe.
- The respondents falsely represented to investors that they have a joint venture agreement with the Hualapai and Havasupai Tribes, allowing them to negotiate the sale of water rights owned by the Tribes. Mendibles and MGN have no such agreement with the Tribe.

Mendibles claims that MGN is to be paid thirty-five percent of net revenues of the casino operations, totaling \$13.3 million. Mendibles and MGN are currently offering to sell ten percent or \$1.3 million of their management fee to investors.

Although Mendibles and MGN purportedly disclose to investors that the casino's revenue projections are merely "good faith" estimates – not guarantees – and expectations are based upon the best and most reliable information derived from the operations of other competitive Indian casinos, they have, in fact, no expectation of such revenue. In addition, Mendibles allegedly tells investors that he will personally guarantee the repayment their investment principal for five years from the date of the investment.

Neither the Mendibles nor MGN are registered to offer or sell securities in or from the state of Arizona, nor do they have an exemption from registration. The Commission's Securities Division believes that at least \$136,000 has been invested thus far.

The Commission's temporary order allows the respondents to request a hearing to respond to the Commission's allegations. Mendibles and MGN have 30 calendar days to respond to the charges.

The Commission thanks the Department of Gaming, the San Juan Southern Paiute Tribe, the Hualapai Tribe and the Havasupai Tribe for their assistance in this matter.

Caution for Investors

Before investing, people should verify the registration of sellers and investment opportunities and investigate disciplinary histories by contacting the Arizona Corporation Commission's Securities Division at 602-542-4242 or toll free outside the Phoenix metropolitan area and Arizona at 1-866-VERIFY-9. The Division's investor education website also has helpful information at www.azinvestor.gov. To access the full text of the Commission action against Mendibles, please click on <http://www.ccsd.cc.state.az.us/enforcement/Orders/2005/Feb17-05.pdf>.

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Note to editors: The Temporary Cease & Desist order is dated February 17, 2005 but Mr. Mendibles was only recently located and served with notice of this action.

Frequently Asked Questions about Temporary Cease & Desist Orders

I found the Commission News releases about these investments. What is a Temporary Cease & Desist Order and what does it mean?

As the regulator of the securities market in Arizona, when the Commission believes a person or company has violated the state laws regarding securities and investments, there are several actions the Commission can take. In this case, the Commission issued a temporary cease and desist order.

The temporary cease and desist order is still in effect and will remain in effect until the Commission rules on the allegations contained in the order. This means it is against the law for the individuals or companies named in the case (collectively known as “the respondents”) to sell or offer these investments in Arizona or from another state to Arizona investors.

How can I find out more?

The Arizona Corporation Commission’s Securities Division has issued an initial temporary cease and desist order against Mr. Medibles. You can view that order and the allegations contained in it by clicking on the February 17, 2005 document at <http://www.ccsd.cc.state.az.us/enforcement/enforce-actions.asp>.

In response to the Commission’s allegations, the respondents have the right to hire an attorney or represent themselves at a hearing.

What does it mean to request a hearing?

By rule, respondents are allowed to request a hearing to challenge one or more of the Division’s allegations. When the Commission takes a public action like issuing a cease and desist order, the case is assigned to an Administrative Law Judge (ALJ). Just like a judge in a civil or criminal case, the ALJ presides over the case until it reaches a final conclusion. The judge will review pre-filed testimony, set schedules for various steps along the way and preside over the hearing, if one is held.

At the hearing, the judge will place witnesses under oath and listen to their testimony. The judge often asks questions of the witnesses and will also allow witnesses to be cross-examined – in other words, the other parties may ask questions of the witness while he or she is still under oath.

After the hearing, the judge will prepare a detailed, written recommendation for review by the Commissioners – five statewide elected officials who vote on these cases. The Commissioners can accept, modify or deny the recommendations of the judge.

Do all cases result in a hearing?

No. Sometimes cases are resolved through something called a consent order or consent agreement. Sometimes respondents believe it is better to enter into an agreement with the regulators – frequently with penalties and other sanctions – than to fight the case and risk that the judge might impose a harsher penalty. Consent orders still must be approved by a majority of Commissioners.

If respondents do not appear to challenge any of the allegations, the Commission can issue a default order.

I have money invested with these respondents. What should I do?

As regulators, the Commission’s Securities Division cannot offer any legal or investment advice. Our staff members cannot recommend that you take any specific actions either. Our duty is to ensure that the

securities market in the state of Arizona is functioning properly, that promoters and securities are properly registered and to make sure investors are given full, fair and proper disclosure about the nature of the investments they are making.

Any investment carries with it a corresponding risk of loss – some types of investments are riskier than others. You should evaluate your risk tolerance and the information about our enforcement actions carefully and consider discussing it with a trusted friend, colleague, lawyer or financial adviser. Then, make your decisions accordingly.

Should I contact the Arizona Corporation Commission's Securities Division?

You should contact the Commission's Securities Division if either of the following situations apply. Information you have could be helpful to our investigators and attorneys.

- Were the investments sold to you while you were in Arizona? If yes, please call 602-542-4242 (within Metro Phoenix) or 1-866-VERIFY-9 (outside Metro Phoenix and Arizona) and ask to speak someone assigned to the case.
- Were the investments sold to you by someone based in Arizona? If yes, please call 602-542-4242 (within Metro Phoenix) or 1-866-VERIFY-9 (outside Metro Phoenix and Arizona) and ask to speak someone assigned to the case.
- **If the answer to both of these questions is "NO," what should I do?**
You may wish to speak with your state's securities regulator to see if they are gathering information about this case or the people through whom you invested. To find a list of state securities regulators, please visit the website of the North American Securities Administrators Association www.nasaa.org and click on "Find Regulator" or call (202) 737-0900.

If I lose money, is the Commission going to help me get it back?

The Commission's first obligation is to ensure that the federal and state regulations regarding securities are being followed. Our cases often result in orders for restitution or, in the case of a salesperson, an order to refund any commissions he or she earned.

Sometimes we are quite successful in recapturing money for investors. Other times – particularly in the larger cases involving thousands of transactions, sophisticated or complex schemes, or offshore accounts – it becomes more difficult for the state to find where money is hidden. And, sometimes the money is already spent by the time a case comes to our attention.

If we are able to recover funds, it gets returned to investors on a pro-rata basis. In other words, if your investment represented three percent of the total money invested in a particular case, you would stand to receive three percent of whatever money is recovered.

The fact that the Commission has taken action in a case does NOT prevent you or other investors from filing your own court case, such as a civil suit or class action suit. When you hire a lawyer working on your own behalf, you have someone looking out for your personal interests. The Commission takes action on behalf of the State of Arizona and all investors in a particular case.